

STAKEHOLDER GROUP MEETING – SYNOPSIS

MEETING DATE: 5/5/2008

ATTENDEES: COUNCILMEMBER PETE CONSTANT, CHAIR

MEMBERS: LORIE BIRD, ELIZABETH BRIERLY, BOB BROWNSTEIN, CARL COOKSON, YOLANDA CRUZ, PAT DANDO, ERNIE GIACHETTI, HOOSHANG HOMARA, JOSHUA HOWARD, CHARLES JONES, MICHELLE LEW, BOBBY LOPEZ, STEVE MOORE, DAVE PERSSELIN, ED RAST, JAN SCHNEIDER, RANDY SEKANY, BUU THAI, KEN WILLEY, SUZANNE WOLF

ABSENT: PATRICIA GARDNER, JEFF RUSTER,

STAFF: DEBRA FIGONE, CITY MANAGER, HARRY MAVROGENES, EXECUTIVE DIRECTOR REVEVELOPMENT AGENCY, JANE LIGHT, CITY MANAGER'S LIAISON, SHAWN SPANO, FACILITATOR.

Welcome/Introductions/Process Overview

- Councilmember Constant called the meeting to order at 6:09 p.m. by welcoming everyone and asking Stakeholder Group members to introduce themselves.
- Shawn Spano will continue to facilitate the discussion. Update on information requests was included in the slide presentation and a review of the strategies to be discussed was provided. (<http://www.sanjoseca.gov/StakeholderGroup08.asp>) May 5, 2008 (Slides 2-7).

Meeting Agenda Review/Future Meetings/Process

- Urgent Strategies #6, #8, #10 will be discussed tonight.
- Focus on advantages and concerns of strategies. Questions and clarifications are welcomed.
- Stakeholder Group members were encouraged to attend the City Council Study Session on May 16, 9:00 am in the Council Chambers. The agenda will include time for Stakeholders to speak.
- Discussion about handouts included question regarding recent Business Journal article about card clubs and growth potential which could positively impact revenues.
- Concern was raised about not recording meetings electronically. There was concern about tonight's voting exercise, so the methodology was changed to address concerns. Discussion about the State budget impacts on legislative strategies which may trickle down to City budget

impacts was noted, and will be fit into next steps for Stakeholder Group discussions of other possible strategies.

Urgent Strategy #6: Restructure Business Tax to Modernize and Reflect Current Business Profile

Presenter: Paul Krutko, Chief Development Officer, Office of Economic Development
(<http://www.sanjoseca.gov/StakeholderGroup08.asp>). May 5 (Slides 8-15) Management
Partners Report Revenue Strategy #4 pp 68. Strategy was presented with 2 options: A. Modernize Business Tax rates by indexing rates to current CPI and raising maximums, and B-1, B-2. Restructure Business Tax Formula, including card rooms and not including card rooms.

STRATEGY		6: Restructure Business Tax to Modernize and Reflect Current Business Profile		
	ADVANTAGES			CONCERNS
1.	CPI adjustments are predictable, consistent and understandable		1.	Increasing/doubling business tax in a down economy
			2.	Potentially regressive nature of across the board increase
			3.	High cost of doing business in San José
			4.	Current business tax is higher than that in nearby cities
			5.	Instant doubling of fees: phase in over time?
			6.	Gross receipts difficult to administer and penalizes successful businesses
			7.	Will make it easier for cities in other states to get San José businesses to locate elsewhere
			8.	If card room tax increase, some of it should go to gambling services
			9.	Will we lose revenue if very small businesses just don't pay the tax?
			10.	Businesses tax model generates declining revenues; property tax percent for business is much less than residential since Prop 13.
			11.	In isolation, without other considerations like fewer regulatory burdens, raising taxes is not attractive
			12.	Don't have information from City regarding where do businesses go if they don't renew their licenses

Stakeholder Question: How many businesses operate under CUP or have to have extra permits, such as BID?

Some concern was expressed that previous measures to increase failed voter approval in a good economy. Now with a bad economy, we are asking that the tax double and to increase the sales tax. Business tax was equalized for surrounding cities into a per capita number and provided: San Jose \$25.92 per capita; Fremont \$34.70 per capita; Sunnyvale \$8.21 per capita; Santa Clara \$7.52 per capita; Mountain View \$3.88 per capita. Several other cities do not have business tax. Reason for “per capita” measure is to get a comparable comparison to measure across several strategies as a way to benchmark. Some expresses concern with per capita basis; would be more interested in what businesses are actually paying.

Stakeholder member has a detailed analysis of business comparisons in area. Will email analysis to Pete.Constant@sanjoseca.gov and made available to group. Another Stakeholder member expressed that if we increase “sin tax,” then some of the revenue received should be put back into economy for services that support those “sins.”

Stakeholder Question: Do we have dollars of small sole proprietorships versus \$1M+ companies? Finance Department database is 85,000 entities, based on self-reporting employment numbers. A report to categorize could be made available. Category suggested was 1-less than 10 employees, over 25 but less than 100, compared to peer group. Economic Development thinks categories of 10 to 100 employees is more indicative. Additional information provided that out of 85,000 entities, 30,000 were classified as “exempt” – not enough receipts or hardship category.

Stakeholder Question: How do other cities treat increases to business tax – Austin, Raleigh, Scottsdale, Tempe AZ, Denver? These are places where San José companies have moved.

Urgent Strategy #8: Increase Revenues from Visitors who benefit from General Fund Services

Presenter: Ed Shikada, Deputy City Manager (<http://www.sanjoseca.gov/StakeholderGroup08.asp>)
May 5 (Slides 16-22). Management Partners Report Revenue Strategy #86 pp 78. Strategy was presented in 3 parts: 1. Increase Transient Occupancy Tax and shift to General Fund; 2. Establish Parking Tax on City/RDA-owned parking lots or all parking lots; and 3. Establish a Vehicle Rental Tax.

STRATEGY		8: Increase Revenues from Visitors who benefit from General Fund Services		
	ADVANTAGES			CONCERNS
1.	Many cities impose vehicle rental taxes and we should return the favor		1.	A state pre-emption of vehicle rental taxes
2.	Vehicle rental tax a good proxy for TOT increase		2.	Impact on downtown
			3.	Effect on visitors versus residents
			4.	Number of hotels serving San José are actually in neighboring cities and might have lower TOT, free parking
			5.	Other city comparisons

Clarification on Slide #20 item A: of the potential annual revenue of \$5.1 Million, breakdown is:

Airport \$3.6 M Downtown Dept of Transportation lots \$900 K
HP Pavilion \$300 K Downtown RDA lots \$200 K
Regional Parks \$100 K

Stakeholder Question: Could this be a rate increase and not a tax? Can be a rate increase on all non-Airport lots in order to benefit General Fund, but would also have to follow existing formulas for distribution. A rate increase at Airport needs to go back to Airport. A general tax would be assessed citywide and goes directly to General Fund revenues, with no restrictions on use.

Hotels are raising a "Hotel Taxing District" which would essentially raise a tax similar to TOT and it would be dedicated to Convention Center expansion. City not recommending an increase to TOT at this time, so as not to double the increase.

Urgent Strategy #10: Modernize Utility Users Tax (UUT) and Consider Increase to Bring into Alignment with Other Large Cities

Presenter Scott Johnson, Director, Finance Department

(<http://www.sanjoseca.gov/StakeholderGroup08.asp>) May 5 (Slides 23-29).

Management Partners Report Revenue Strategy #5 pp 71. Strategy was presented with 2 options: A. Increase Utility Users Tax citywide; and B. Maintain the current tax rate and modernize telephone users tax.

STRATEGY		10: Modernize Utility Users Tax (UUT) and Consider Increase to Bring into Alignment with Other Large Cities		
	ADVANTAGES			CONCERNS
1.	UUT shares burden of paying for services very broadly		1.	Local peer cities have lower rate than San José
2.	Modernization creates more equity		2.	Interim option B – goes to voter, then in 2 years, increase/restructure = 2 ballot measures in 3 years
3.	Addresses future innovations, more flexible		3.	Regressive – hit low income residents harder

Stakeholder Question: What is UUT distribution of cities around San José?

Sunnyvale 2% Mountain View 3%
Oakland, Los Angeles, San Diego, Long Beach 6.83%
Milpitas, Fresno no tax Santa Clara has own utility as major revenue source

Stakeholder Question: Do we tax cable? No, but we collect a Franchise Fee. But with bundled services, we have a revenue stream gap.

Stakeholder Question: What is the impact of the City's "green vision" which promotes reduction of energy usage by 50%? Would the drop in revenues be offset by projected growth of 350,000 in population in next 25 years?

Stakeholder Group added one additional strategy for consideration on a November 2008 ballot: Increase Number of Card Room Tables Allowed in San José. According to City Attorney, an increase in tables would require voter approval. There was no prepared presentation.

STRATEGY		Increase Number of Card Room Tables Allowed		
	ADVANTAGES			CONCERNS
1.	Residents are going out of area to gamble because not enough tables		1.	Targeting a particular population
2.	More give & take: Could give more tables and take in higher tax rate – increase revenue to San José (package)		2.	Offset public benefit of increased revenues with greater problems from gambling – require more intervention services at greater cost
3.	Approximately up to \$6 Million per Business Journal. (Dollars contrast with current annual revenue of approx. \$11.2 Million)		3.	Crimes associated with card rooms, workload on Police Department regarding background checks and licensing card room employees
			4.	Cost/benefit – how to recover costs

Stakeholder Question: Referencing article in 4/11/08 Business Journal, policies made by City Council in the past should be reviewed.

Clarification: City is currently in litigation with one card room.

Strategy Preferences Exercise

Originally the Stakeholder Group was requested to select 3 strategies they preferred to go forward for consideration on the November 2008 ballot (green dots), and one strategy they definitely could not support (red dot). Several objections were expressed about the limitations of only being able to comment on 4 out of the 11 strategies, some with multiple options. It was determined that the Landscape and Lighting District strategy (presented on 4/28/08, Urgent Strategy #5) and the Card Room Table Increase be added to the preferred ranking list. It was also determined that a better representation of the preferences of the Stakeholder Group would provide a rating on each strategy and option as follows:

- A YES indicated that the Group preferred this tax go forward for consideration by the City Manager for a November 2008 ballot.
- A NO indicated that the Group members did not support this type of tax measure.
- A KA (Keep Alive) indicated that the tax strategy was worth considering, but more information and discussions were needed before a definitive preference could be provided.

The results on the strategy options are attached.

The advisory results of these preference indicators will be sent to the City Manager for use in her report to the City Council in preparation for the MBA due out this week and in the final Elimination Plan to be presented to Council in November 2008.

Closing: Next meeting will take place on June 2, 2008 at City Hall, Wing Rooms 118-120. The discussion will include new strategy suggestions from the Stakeholder Group to be grouped with the Management Partners remaining Top Priority Strategies. If a theme can be determined for grouping these strategies, staff analyses and presentations will be brought to the group at the June/July scheduled meetings. These new strategy suggestions will include the Working Partnerships report and the Neighborhood Associations reports. These and additional suggestions can be emailed prior to the June 2 meeting to Pete.Constant@sanjoseca.gov, or to District1@sanjoseca.gov

Public Comment: None

Meeting was adjourned at 9:12 pm.

Description of Urgent Strategy for Potential Placement on November 2008 Ballot	Support	Oppose	Want More Info
(6A) Modernize Business Tax rates by indexing rates to current Consumer Price Index (CPI) and raising maximums <i>(voter approval)</i>	↑↑↑↑↑ 5	↓↓↓↓↓ ↓↓↓↓↓ ↓ 11	→→→→→ →→→→→ → 11
(6B-1) Restructure Business Tax Formula (including cardrooms) <i>(voter approval)</i>	0	↓↓↓↓↓ ↓↓↓↓↓ ↓↓ 12	→→→→→ →→ 7
(6B-2) Restructure Business Tax Formula (non-cardroom) <i>(voter approval)</i>	0	↓↓↓↓↓ ↓↓↓↓↓ ↓↓↓↓↓ 15	→→→→→ →→ 7
(7A) Increase Construction/Conveyance Tax; allow more Parks Maintenance and potentially other uses <i>(voter approval)</i>	↑↑↑↑↑ ↑↑↑↑↑ ↑↑ 12	↓↓↓↓↓ 5	→→ 2
(7B) No increase to Construction/Conveyance Tax; allow more Parks Maintenance	↑↑↑↑↑ ↑↑↑↑↑ ↑ 11	↓↓↓↓↓ 4	→→→→→ 5
(7C) No increase to Construction/Conveyance Tax; shift all revenues to General Fund	0	↓↓↓↓↓ ↓↓↓↓↓ ↓↓↓↓↓ ↓↓↓ 18	0
(7D) No increase to Construction/Conveyance Tax; shift non-Parks allocations only	0	↓↓↓↓↓ ↓↓↓↓↓ ↓↓↓↓↓ ↓↓ 17	→ 1
(8-1) Increase Transient Occupancy Tax (TOT) to Market and shift to General Fund (not recommended) <i>(voter approval)</i>	↑↑↑ 3	↓↓↓↓↓ ↓↓↓↓↓ ↓↓ 12	→→→→→ →→→→→ 9

(8-2) Establish a Parking tax (on City/RDA owned or all parking lots) (voter approval)	↑↑↑↑↑ ↑↑↑ 8	↓↓↓↓↓ ↓↓↓↓↓ ↓ 11	→ → → → 4
(8-3) Establish Vehicle Rental Tax (voter approval)	↑↑↑↑↑ ↑↑↑↑↑ ↑↑↑↑↑ ↑↑ 17	↓↓ 2	→ → → → → → → → → → → 11
(9) Increase Sales Tax to provide increased General Fund revenues (voter approval)	0	↓↓↓↓↓ ↓↓↓↓↓ ↓↓↓↓↓ 15	→ → → → → → 6
(10A) Increase Citywide Utility Users Tax (UUT) (voter approval)	0	↓↓↓↓↓ ↓↓↓↓↓ ↓↓↓↓ 14	→ → → → → → → → 8
(10B) Maintain current UUT and modernize Telephone Users Tax (voter approval)	↑↑↑↑↑ ↑↑↑↑↑ ↑↑↑↑↑ ↑↑ 17	↓↓ 2	0
NEW: Card Rooms-Increase rate to 15% (tax only)	↑↑↑↑↑ ↑↑ 7	↓ 1	→ → → → → → → → → → → 11
NEW: Card Rooms-Increase rate to 15% with increase in # of tables	↑↑↑↑↑ ↑↑↑↑↑ 10	↓↓ 2	→ → → → → → → → → → 10
PRIOR DISCUSSION: Lighting/Landscape District Citywide	N/A	N/A	→ → → → → → → → → → → → → → → → → → → → 20